



The organizational dimension of servitizing your business

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The organizational dimension of servitizing your business



Market pressures urge manufacturers increasingly to add services to their existing product portfolio. While the addition of spare part provision and standard maintenance is by now a well mastered art, the market demands offerings, which go beyond this: *integrated solutions*. Instead of offering product and service as separate items, integrated solutions represent compound offerings of both. Examples include pay-per-output contracts or performance guarantees, in which the product remains in the ownership and responsibility of the provider.

Some pioneering companies have been able to develop integrated solutions successfully and now benefit from increased profit margins, a stable revenue stream and closer customer relationships. However, these success stories are rather exceptional and many fast followers experimenting with these concepts have failed through bankruptcy, high losses or project termination before the launch. The source of failure lies in the difficulties of developing the integrated solution. Specifically, the challenge of navigating the parallel development of product and service in the organizational setting.

In our research, we have investigated in depth the challenges of integrated solution development and have observed that the organizational setting represents one of the largest loci of the challenges. In the following, we will share our insights regarding the most critical organizational challenges. We hope that with these insights managers are able to manage the development of integrated solutions better.

1 Large Stakeholder Network

The development of integrated solutions involves a larger stakeholder network due to its complexity and interdisciplinarity. While in pure product development a variety of stakeholders is involved, this circle expands even further in integrated solution development due to the additional service element to be developed. Relevant stakeholders originate from diverse functional units within the company such as technical, commercial, legal, financial, and have each their own attitudes towards the developed integrated solution. Here challenges can arise in the context of scoping the offering and the corresponding internal placement of the project within the organization: Who is responsible for the governance, accountable for the risk and resulting, committed to the costs of the development and the resource required for the project? Can the budget and resource commitment originate from separate business units? In short, the development of an integrated solution requires a broader systems perspective, which considers all stakeholders.

2 Organizational Change

The development of a product and a tailored service in parallel is usually a long-term project, which spans over several years. This makes the project vulnerable to larger contextual developments surrounding the project. In our research, internal reorganization was a main issue for all the studied organizations and included the department, the business unit or even the whole organization. Reorganizations always

caused major disruptions where development teams lose their momentum and workforce due to the additional tasks connected with the reorganization.

3 Service Culture

Operating in a legacy organization of product development, the addition of services to the portfolio takes organizations “some getting used to”. The natural response of the organizational immune system is to reject this novel and radical offering in order to stay in the comfort zone of pure product development. Managers developing integrated solutions need to possess strong stakeholder management abilities to manage the polar reactions. An organization facing integrated solutions for the first time will encounter the full spectrum reaching from strong support to categorical opposition.

4 The inherited Product Development Process

One heritage of the many years of successful product development in manufacturing firms is a development process, which is optimized for product development. In this process, activities are typically moving in a linear fashion through gates, and the requirements and stakeholders to be involved are defined out-front. Due to its radical novelty for the organization as well as uncertainty about the initially defined requirements and stakeholders, integrated solutions require a different approach. Instead of the linear progression of traditional product development, the development of integrated solutions requires a more flexible and adaptive approach. Constant learning throughout the process is imperative for the successful development.

For example, internal stakeholder such as the legal department need to be involved early to scope the process and development task. Lacking understanding of the contractual feasibility and legality of the contract under diverse laws can otherwise lead to strong infringements after the launch, potentially hindering the overall market-entrance. In addition, the contractual clauses are most likely to change throughout the development as the exact scope of the integrated solution emerges. The inherited development approach does not permit these continuous changes and thus hinder the team from learning.

Learnings

In essence, when developing integrated solutions attention needs to be paid to the organizational setting. The application of systems thinking, considering the underlying system on which the project is executed comprising of culture, processes and organizational structure, as well as surrounding factors like organizational change, may either support or hinder the project from succeeding.

To gain more insights into the learnings from the benchmark study underlying this article please refer to our **benchmark report** or a management summary in our **LinkedIn article**. If you want to learn more about the challenges of servitization and management strategies to overcome them, please follow our publications, or engage in research collaborations with us.

About the authors

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